Performance Based Infrastructure (PBI)

Seven Common Misconceptions

Misconception #1: PBI is just another effort to privatize government.

- **PBI is not privatization, but is based on partnership.** While privatization means transferring an existing public service or facility to the private sector, PBI is a form of contractual arrangement in which government and private companies assume co-responsibilities for the delivery of infrastructure services, on schedule and on budget.
  - **United Nations – PBI combines "advantages of private sector" with "social responsibility, environmental awareness, local knowledge and job generation concerns of the public sector":** "PBI is a way of introducing private management into public service, combining the advantages of the private sector —dynamism, access to finance, knowledge of technologies, management efficiency, and entrepreneurial spirit —with the social responsibility, environmental awareness, local knowledge and job generation concerns of the public sector." (UN Economic and Social Council Report: Governance in Public Private Partnerships for Infrastructure Development Draft, 11/2/2005)
- **California is already utilizing PBI with great success.** California and other governments have long partnered with the private sector to provide public services.
  - For example, California pays private entities to run developmentally disabled centers, provide mortgage counseling, manage government employee pension money, design buildings, fix bridges, build public infrastructure, and much more.

Misconception #2: PBI is more expensive.

- **PBI is optional.** PBI projects should and will be undertaken <u>only</u> if they improve the delivery of public service and produce a benefit for taxpayers. All PBI projects will undergo a comparative "value-for-money" analysis to ensure this outcome.
  - In Canada's experience, roughly 15-20% of public infrastructure can be provided, operated and maintained less expensively by PBI.
- **PBI helps public agencies become more cost effective and cost efficient.** PBI will help public agencies make better informed decisions and save taxpayer dollars.
  - PBI helps public agencies to fully account for costs of proposed infrastructure through the entire lifecycle, including not only upfront construction costs but also lifetime operation and maintenance costs. These lifecycle costs are often overlooked under the conventional procurement methods.
  - PBI allows the public sector to harness the knowledge, expertise, and innovation that exists in the private sector.
  - A competitive process, based on performance, and the potential for innovation reduce the overall cost to government.
- **PBI arrangements transfer certain risks to the private sector.** The best value for money is achieved by assigning risk related to infrastructure finance, construction and operation to the party best able to manage it.
  - Construction costs are just one example where government can significantly benefit from transferring the risk of cost overruns to the private sector.
  - If there is no private sector partner, taxpayers subsidize the cost of the project by bearing the risk of cost overruns, time delays or performance failures.

Misconception #3: A governmental entity should only use bond financing to meet its infrastructure needs.

- **Bond financing creates debt.** Bonds do not create a new revenue source, just debt. A government cannot issue bonds without limit; California's debt capacity has been impaired by the issuance of billions of dollars of debt-like obligations for non-infrastructure operating expenses.
  - The Department of Finance estimates that California needs $500 billion worth of infrastructure over the next two decades. Bond financing alone, will not solve the problem.

Misconception #4: Private companies are not accountable to the public at large.

- **PBI does not diminish public sector control and accountability over infrastructure assets.** Indeed, the strict contractual arrangements between government and the private sector often give governments the ability to fix problems faster, better and cheaper (e.g., CC Myers repairing the MacArthur Maze collapse) than if they only had the option of relying upon their own internal resources or other government agencies.

- **Accountability based on performance.** If the infrastructure or facility doesn't perform as promised in the contract, then the private partner doesn't get paid. The private sector partner is clearly being held financially accountable and held to strict performance standards. In addition, if a long-term contract exists to operate and maintain, the private partner will be much more likely to put a premium on higher quality and better maintained infrastructure over the longer term.

Misconception #5: PBI is simply a means of cutting jobs or labor costs.

- **PBI creates jobs.** Labor unions embrace PBI because building more infrastructure more rapidly produces greater wage-earning opportunities.
  - PBI helps create jobs in the construction and service industries as well as creating future jobs at the facility being built.
  - In many PBI arrangements, existing project-labor agreements carry over. For example, the Labor Services Agreement for the Newcastle Mater Hospital Redevelopment project (New South Wales, Australia) stipulates that public sector health employees – who remain public sector employees – will provide facility maintenance and non-clinical services under the management of the private partner.

Misconception #6: PBI always leads to more user fees and toll roads.

- **Many PBI projects around the world involve no user fees.**
  - Public schools in Scotland, public recreation centers in Ontario, public hospitals in British Columbia and more projects are built and run by private entities under PBI but paid for by governments out of their budgets.
  - In France and Canada, highways are being built and repaid with payments from the government, not user toll fees.

- **In the event that user fees or tolls are used to repay the cost of the infrastructure, governments, not PBI providers, determine the terms under which to charge for use of a public asset or service.** Determining how and when to charge tolls is separate from the question of how best to finance, build, operate and maintain public infrastructure.

Misconception #7: With better public sector planning and management there would be no need for PBI.

- **PBI is just an option.** Where procurement, management, operation and maintenance on a non-PBI basis by the public sector on a conventional basis is the better alternative, PBI would not be used**.** PBI is simply a competitive alternative that should be chosen when it produces better value.

- **Need for improvement.** An alternative delivery method might have yielded better cost management and earlier completion on the following non-performance-based infrastructure projects provided by the public sector:
  - *Reconstruction of the Bay Bridge Maintenance Complex:* Cost grew from $28.5 million to $32.3 million (13%), and the project was delayed by 1 year.
  - *Roadway Rehab:* Cost grew from $186.7 million to $226.4 million (21.2%).
  - *Seismic Retrofit:* Cost grew from $45.6 million to $62.4 million (37%), and the project was delayed by 1 year.

- **Competitive procurement helps to produce better outcomes.** Taxpayers, citizen and workers will benefit from competition between PBI and non-PBI alternatives.

Sources: Infrastructure Ontario; UN Economic and Social Council Report: Governance in Public Private Partnerships for Infrastructure Development Draft, 11/2/2005; Stanford Infrastructure California Draft, 12/10/2007.